

**State-Appointed Emergency Financial and Academic Managers for Michigan
School Districts**

Testimony presented to Michigan House Education Subcommittee

By

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Introduction

I am Dr. David Arsen, professor of Educational Administration and Policy in the College of Education at Michigan State University. I would like to thank the committee for its commitment to gather input from many individuals as it considers possible revisions to state law pertaining to the roles and responsibilities of state-appointed emergency financial managers for local school districts. I would also like to thank the committee for this opportunity to share my thoughts with you. The committee's charge, as I understand it, has been defined by a set of four questions. I have been asked to address those questions, so I will comment on each question in turn. I wish to emphasize at the outset that I have been asked to address these questions as matters of general state policy and not from the standpoint of current developments in any given school district.

1. What determines an academic emergency?

As I understand this question it pertains to a school district-wide academic emergency. We are concerned here not with an emergency in an individual school building or set of buildings, but an academic emergency for a whole school district. This is a significant distinction. Most of our contemporary federal and state education accountability policy has taken the school as the relevant unit of accountability. We all have our notions about what such an emergency might look like. We all care about such situations and recognize how tragic they are. But in fact it is not a straight-forward matter to define performance measures and cut-offs in those measures between situations that do and do not constitute an emergency. In short, it is difficult to define in advance precise measures that would justify the suspension of a district's normal governance arrangements and require outside intervention. To be clear, I am not suggesting that

emergency intervention should not be undertaken, but rather that it should be done with care. Let me explain why.

First, however, it is useful to note that by comparison, the definition of a district financial emergency is much easier. In the case of finances, professional accounting guidelines and state laws that require balanced budgets provide a relatively firm basis for defining an emergency. Essentially this occurs when school districts have an overall budget deficit and fail to make progress in eliminating the deficit in a specified time period or fail to properly account for and report their finances. This definition also coincides with the fact that in our system of K-12 public education, the local district is the relevant organizational unit responsible for financial decision-making, accounting and reporting. So the outside intervention in the case of finances is triggered by the unsatisfactory performance of individuals with respect to outcomes over which they exercised control.

Unfortunately, the case for academic emergencies is less clear cut. Indeed I am unaware of any proposed definitions of an academic emergency here in Michigan that would stand up to scrutiny. In short, we don't yet have reliable measures for this. There are three main reasons for this.

First, measures of student performance are powerfully influenced by student background characteristics, such as family income or parental education. This is one of the most firmly established empirical regularities in all of social science. Children from low-income families enter kindergarten with achievement levels that are roughly two years behind those of upper-middle class children, and differences in family circumstances and neighborhood conditions continue to generate unequal influences on

education outcomes as children progress through elementary and secondary school. We all understand this.

So any legitimate measure of school performance or failure must account for these differences in students' background characteristics over which schools have limited control. Any definition of academic emergency that is framed in terms of a given percentage of students who fail reach proficiency on a state test (e.g. the MEAP) or a percentage of students who fail to graduate will mainly succeed in identifying the districts attended by high concentrations of low-income students.

This problem is now widely recognized in research and policy circles. The failure of the federal No Child Left Behind Act to take account for this is now accepted by virtually everyone to have been a major design flaw in the policy. It also accounts for the tremendous upsurge in attention recently to value added or growth models in accountability policy design. These measures seek to rate schools' performance by measuring individual students' improvement in learning from one year to the next. Conceptually this is a much more appealing. In particular, in principle an accountability system built around a value-added or growth measure would diminish, although not eliminate, the bias associated with student background characteristics.

The practical problem, however, is that we do not yet have suitable value-added measures. Part of the problem is data. We don't currently have as much test data as we need to implement these models. But the more fundamental challenge is in the design of the value added measures themselves. Many very smart people are working furiously on this technical task, but right now we do not yet have statistical measures of value added that are stable and reliable. This is why the U.S. Department of Education has struggled

so much with the definition of “lowest-performing” schools in conjunction with the Race To the Top competition. I don’t think it makes sense for this committee to define a measure of school district performance that supersedes this process.

I would also be cautious about stipulating now in state legislation language that incorporates whatever future definitions of school performance are put forth by the U.S. Department of Education to serve as Michigan’s definition of district academic emergencies. After all those measures are being established quickly under intense political pressure and will pertain to school-level, not district, performance. We ought to first examine whether those federal definitions are suitable for use in defining the state’s district academic emergencies before incorporating them into law.

The second challenge in defining and measuring academic emergencies relates to school choice. Over the last 15 years we have witnessed a profound shift from school assignment based on attendance area to school choice based on parental selection of schools from a variety of options including traditional neighborhood public schools, magnet schools, charter schools, and public schools in neighboring districts. The share of students participating in school choice in Michigan is among the very highest in the country. And the density of school choice activity is especially high—indeed it is concentrated in—Michigan’s urban areas. These are also the areas where average levels of measured student performance tend to be low.

About one-third of the students who live in Michigan’s 14 central cities attend charter schools or schools in other districts through inter-district choice. Urban districts have also established a variety of magnet schools, while they are simultaneously closing scores of school buildings due to overall enrollment declines. All this choice activity

produces an extraordinarily turbulent educational setting. There is a lot of student movement in and out of district schools. In Michigan's 14 central city school districts about one-half of the students are in same building from one year to the next. We also know from careful research that these student flows are not random with respect to student socioeconomic background, race, achievement level, or disability status.

It is easy to recognize that a reliable measure of district academic performance would have to account for this student mobility. Otherwise the measure will be overwhelmed by changes in the composition of a district's students. If charter schools or neighboring districts, for example, disproportionately attract highly motivated or high achieving students, the performance of the public school district they left would appear to deteriorate even if there had been no decline in student learning. Conversely if the charter or neighboring districts disproportionately attract low achieving students, then the district's performance would look as though it had improved when in fact all that changed were the children attending its schools.

This is why we have to have measures of value added that are based on individual student-level data that track students through the system from school to school.

The third challenge in defining a district-level academic emergency is that the overall accountability policy environment is in flux in ways that undermine a clear definition of district-level academic emergency. I noted the U.S. Department of Education is still in the process of specifying what it regards as appropriate measures of school performance. But you also know that the Michigan Legislature passed legislation in December that removes from a school district's authority poorly performing schools and places them under the authority of state-wide turnaround or "virtual" district. Many

details in the design and implementation of this policy are yet to be determined. But we can readily see how such a policy would severely complicate the definition of a district-level academic emergency.

If a district's worst-performing schools are taken over by the state, the measured performance in the district's remaining schools may improve significantly and no longer constitute an academic emergency, even if the district's leadership or their actions remained unchanged. Indeed such an arrangement could create an incentive for districts to game the system by concentrating their lowest performing students disproportionately in certain buildings in the hope that they would be taken over by the state and spare the district from being designated an academic emergency. On the other hand, if the schools taken over by the state are included in the measure of a district's performance, district administrators would be held accountable for the performance of students for whom they are no longer responsible.

In summary:

- The definition of a district academic emergency is a worthy objective;
- But each of the three factors I have mentioned—student poverty, student mobility, and uncertainties regarding the state turnaround accountability policy—make it very difficult to define a sound measure of academic emergency at this point;
- Consequently, I think the best option at this point is to wait. Wait for the development of suitable student-level growth measures and for state and federal accountability policy pertaining to low-performing schools to be more firmly established. Don't rush to define in state legislation a highly imperfect measure

of district academic failure that could be arbitrary or create serious problems when implemented.

2. Should emergency financial managers also control academics, whether or not an academic emergency exists?

It is easy to recognize that in carrying out his or her duties, an emergency financial manager may have to take actions that impact a district's instructional operations. Financial and academic decision making are intertwined. We all recognize this. I think the key word in the question is "control." The fact that an emergency financial manager's efforts to balance a district's budget are likely to have consequences for instructional operations, does not in itself establish a very compelling argument for assigning control of academic services to the financial manager, at least if we are serious about improving district academic performance.

I leave aside the possibility posed by the question that an emergency financial manager might assume control of instruction in a school district in which serious academic problems are not present. In that case, the appropriate is clearly "No"—a financial manager should not control academics.

Let me start by acknowledging a popular notion nowadays that all that is needed to turnaround poorly-performing school districts is a no-nonsense, strong administrator—someone possessing essentially the same skills that one would find among effective leaders in a large business corporation or the military. We are all familiar with this conception. I think it is a little fanciful.

I am familiar with the characteristics of good business managers. I am an economist and a specialist in education finance. Several of my current and past graduate students are school district business managers, and I have had the opportunity to work with several other district business officials and their professional association here in Michigan. In all honesty, I have been very impressed by the expertise and professional competence of these officials. By and large, they are excellent administrators. Most preside over the business operations of organizations that are the largest employer in the districts where they are located, and in settings that are often more challenging than one finds with equivalent positions in private corporations.

Nevertheless the skills necessary for one to be an effective school district business manager are not the same as those that are need by an effective educational leader. Most district business officials will readily acknowledge this.

To successfully turnaround the academic performance of a school district, a leader requires many skills and conditions, but I would like to focus on two that strike me as particularly germane: 1) technical expertise and 2) organizational trust.

Technical expertise refers to the knowledge of what education researchers call the instructional core. That is, it requires the capacity to change the way teachers and students interact around subject matter. Change in the instructional core requires teachers and principals to learn something new, to change their professional practice. In order to lead this change, an emergency academic manager must understand what it entails, that is to have technical expertise in teaching and learning. It's not simply a matter of being a good manager.

There are many examples nationwide of strong managers or mayors taking control of troubled school districts. Many have been able to balance budgets, but one is hard pressed to find compelling examples where this strategy has generated sustained improvements in student learning.

One irony of emphasizing the importance of technical expertise in teaching and learning here in Michigan is that the state hosts—particularly at Michigan State University and the University of Michigan—one of the most celebrated concentrations of researchers anywhere in the world who have a deep understanding of the relevant knowledge. Now I'm not suggesting that we ought to appoint a professor as emergency academic manager. That would be a disaster for sure. But there is a lot of technical expertise here in Michigan. That knowledge, which was created in part with the support of Michigan taxpayers, ought to be utilized in the process of improving our poorly performing districts.

Let me turn now to *trust*. There is growing recognition of the critical role trust plays in well functioning organizations, including schools. This is not simply a loose, subjective concept. Nobel economist Kenneth Arrow (1974) describes trust as a “lubricant,” greasing the way for efficient operations in organizations. Trust promotes effective communication, cooperation, and adaptability, which are the foundations for effective relationships in schools.

As trust declines, organizational effectiveness declines. People must engage in self-protective actions and continually guard against the opportunistic behavior of others.

Research on trust offers many pertinent findings for the question at hand. First, trust is strengthened when parties have ongoing relationships in which their interactions

demonstrate benevolence, support, and concern. Second, people have less incentive to act in a trustworthy manner when there is uncertainty about the durability of their relationship. Third, trust is more difficult to establish when parties do not enter into a relationship freely, but rather under compulsion. Fourth, trust is promoted when the behavior of those in authority positions is characterized by consistency, integrity, open communication, and a willingness to share control

Establishing trust is a serious challenge in schools or districts that have been designated as “failing.” When teachers and administrators feel threatened, or accountable for problems beyond their control, they may be reluctant to cooperate with an emergency manager to make necessary changes in work routines or personnel.

The importance of trust for an emergency academic manager can scarcely be overstated. Significant improvements in school performance will require changes in how the school is organized and in how teachers work. These changes may include cutting jobs for teachers and other staff; altering the way administrators share power with teachers; adopting new materials and teaching practices. Unless great care is taken in an emergency academic manager’s appointment and the specification of their responsibilities and authority, he or she is likely to operate in an extremely turbulent, contentious, short-term and distrustful environment that’s unlikely to establish the foundation for needed academic changes.

I think it doubtful that simply extending the authority of an emergency financial manager to academic issues provides much assurance of the leadership that’s needed to improve academic outcomes. Indeed given the strong possibility that an emergency financial manager will lack technical expertise in teaching and learning and would face

serious obstacles in generating needed organizational trust, I think it would be misguided to establish in state law a provision assigning control over academic affairs to an emergency financial manager.

3. What level of oversight should emergency academic managers or financial managers be accountable to?

This is an important question. We don't have much careful thinking on it or even very compelling examples of successful arrangements that have been established elsewhere. So you are taking up an issue that is fairly uncharted.

Once again, I think it is appropriate to distinguish between emergency financial managers and academic managers. In the case of emergency financial managers, the prospects are pretty good for establishing workable accountability arrangements.

- First, we should remember a key level of accountability that is built into school district finances. Every district—and charter school—must have its financial accounts audited by an outside certified public accountant annually before submitting their financial reports to the state. Just as we have recently witnessed increased scrutiny of the activity of accounting and rating firms with regard to their oversight of private financial sector firms, I think we can expect more from this established level of financial accountability for school districts. This thought crosses my mind every time I read a newspaper story about alleged school district financial malfeasance.
- Second, the Michigan Department of Education already has staff who are responsible for monitoring the progress of districts that have entered into deficit

reduction plans. Admittedly the MDE operates with very thin staffing. But on balance, I am inclined to think that for basic accounting and reporting purposes the annual outside audits and MDE oversight are probably sufficient.

- If one adds the recently passed House bill 5052 requiring the emergency financial manager to produce a report to the governor, and leaders of the Legislature every six months, I think that would probably be sufficient.

It is much more complicated to envision an effective and efficient accountability structure for an emergency academic manager. In particular, it is unclear just how establishing a new and distinct dimension of performance oversight for emergency academic managers in what is already a turbulent policy setting characterized by multiple and evolving accountability mechanisms will help.

I think the first and most important requirement is that we establish a promising framework for guiding and supporting the needed improvements in poorly-performing school districts. In establishing such a framework, it will be essential to incorporate oversight arrangements. But I am reluctant to go too far in speculating about the design of this oversight, mainly because I don't think it's most promising to conceive of the challenge of turning around poorly performing districts as primarily a problem of *governance*.

We are living in an era that has powerfully embraced the idea that we can significantly improve student outcomes by simply creating the right governance arrangements and leadership for schools. This is the essential idea behind charter schools and mayoral takeovers. Yet the results have been very mixed at best.

I think we are kidding ourselves if we think changes in governance alone will be sufficient to improve the education for all children. We'll need a coherent state education policy framework that does not penalize districts charged with the responsibility of educating low-income and difficult-to-educate children. One that provides needed supports and capacity building in addition to proper incentives. One, I suspect, that will include an expanded role for regional agencies, such as the intermediate school districts.

4. Should emergency financial managers or academic managers have prior background or a proven track record in the position they are appointed to?

My short answer to this question is “Yes”. The responsibilities associated with the positions we are talking about are simply too great to assign them to people who lack appropriate training and experience. The question specifies two distinct criteria: 1) “appropriate” prior background and 2) a proven track record. Both are desirable. But the first standard is more easily met than the second.

I would say that in the case of emergency financial managers that the prospects are generally quite good that the state could identify individuals who meet both criteria.

In the case of emergency academic managers, however, if the requirements for appointment are both prior background *and* proven track record, then this may effectively define a null set—especially if what we mean by proven track record is a proven record of turning around the academic performance of an entire large urban school district.

So I think in the case of an emergency academic manager, one would have to settle for appointing people who are experienced in such circumstances and whose past work in such difficult situations indicates technical expertise, good judgment and tact in

moving a district forward. As I suggested earlier, however, I have doubts that without reliable measures of school district performance and a coherent state policy framework the appointment of an emergency academic manager represents by itself a very promising strategy.

Conclusions

The Michigan Constitution clearly assigns to the state, not local governments or school districts, the responsibility of maintaining and supporting a system of public elementary and secondary schools. Historically, Michigan, like other states, has delegated much of this responsibility to local districts governed by democratically elected school boards. This Committee is deliberating proper interventions when these traditional and well-established governance arrangements fail produce schools in which most students meet the educational goals established by the state. If these interventions are to hold any promise for producing improved educational outcomes, then they must be based on a realistic understanding of the forces that have weakened performance in some local areas as well as institutional arrangements that would work better.

Concerns about school performance currently focus on districts in Michigan's most troubled urban areas. Whether or not these districts are the lowest performing in a value-added sense, we know that the crisis in their schools is reinforced by readily apparent crises in many other dimensions of community life: the loss of good jobs, an epidemic of drugs, violence and incarceration, the abandonment of housing and retail establishments, and the demise of opportunities for healthy food, recreation and social engagement.

School board politics are often messy and frustrating. Indeed school governance is the most accessible forum for democratic participation in American political life. Traditionally we have accepted democracy's inefficiencies as a necessary by-product of our hope to realize a higher objective: citizen engagement and control. Most school district superintendents recognize that their jobs would be easier if their administrative actions were not constrained by the need to maintain the support of an elected board. This in itself, however, does not establish a strong rationale for concentrating control in a central administrator's hands.

If traditional governance arrangements fail to produce satisfactory outcomes in a local school district, the state is obliged to intervene. In my view, prevailing provisions in Michigan law that provide for the appointment of an emergency financial manager are appropriately structured to the task of addressing problems in school district finances.

Despite the connection between financial and academic decision-making, the simple extension of an emergency financial manager's authority to also cover academic affairs does not establish a promising basis for sustained improvement in educational outcomes. To establish such an extension as a matter of state policy would, in my view, be a mistake, primarily because it is unlikely to produce the desired changes in educational outcomes. Such a policy would not assure that the emergency manager possesses the necessary technical expertise to improve teaching and learning, and the short-term nature of the financial manager's appointment would undercut the establishment of sustained institutional reforms required to improve student outcomes.

I have not been asked to articulate a set of institutional arrangements among an emergency financial manager, a local school district's elected board and other parties that

would establish a more promising foundation for improving district-wide academic outcomes. In my view, however, this is precisely the task that state policy makers need to embrace. I will only advise that such an institutional structure should require a local school board to address the financial constraints established by the emergency financial manager while implementing long-term educational reforms in conjunction with an established, outside, state-approved entity that possesses the technical expertise to build capacity in teaching and learning. There are alternative outside entities that could be enlisted to provide this support for academic improvement. Among them, I believe that a coordinated state effort to develop this capacity in Michigan's intermediate school districts is the most promising.